Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)
Italy, 00187 Roma, Via Poli 29
Tel. 0039/06/6976681 fax 0039/06/69766830
e-mail: presidenza@fondazioneoic.it

International Accounting Standards Board
Columbus Building
7 Westferry Circus Canary Wharf
London E14 4HD United Kingdom
commentletters@ifrs.org

7 April 2022

Re: ED/2021/10 Supplier Finance Arrangements

Dear Mr Barckow,

We are pleased to have the opportunity to provide our comments on the Exposure Draft ED/2021/10 *Supplier Finance Arrangements,* issued by the IASB on 26 November 2021 (the 'ED')

In general, we support the ED and the IASB's efforts to develop a set of disclosures for entities that enter in supplier finance arrangements considering the increased usage of such arrangements in practice.

However, we note that the project does not address the classification in the statement of financial position of the liabilities affected by these arrangements. We believe that, in this (or in a separate) project, the IASB should:

- provide further guidance on whether and when an entity should derecognise trade payables that become part of these arrangements and
- clarify when a liability should be classified as a financial liability (and thus included in the net financial position) or as a non-financial liability.

We agree with the IASB's decision of explaining the characteristics of supplier finance arrangements rather than developing a definition of a supplier finance arrangement, because in our view this approach is more flexible and reduces structuring opportunities.

We agree with the proposal to add a disclosure objective in IAS 7 to help investors to assess the effects on supplier finance arrangements on an entity's liabilities and cash flows. However, we think that the disclosures required by the ED might result in providing excessive details. For this reason, we suggest the IASB to require entities to disclose aggregated information (when terms and conditions are similar) and require disaggregation only when it is necessary in order to provide relevant information.

We set out detailed comments and responses to the questions in the ED in the Appendix A.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)

Appendix A - OIC's responses to the questions raised in the ED

Question 1 – Scope of disclosure requirements

The [Draft] Amendments to IAS 7 and IFRS 7 do not propose to define supplier finance arrangements. Instead, paragraph 44G of the [Draft] Amendments to IAS 7 describes the characteristics of an arrangement for which an entity would be required to provide the information proposed in this Exposure Draft. Paragraph 44G also sets out examples of the different forms of such arrangements that would be within the scope of the Board's proposals.

Paragraphs BC5–BC11 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

We agree with the proposed approach of explaining the characteristics of supplier finance arrangements that are within the scope of the ED, because this will provide sufficient flexibility to ensure that all these arrangements are captured. Any detailed definition risks becoming outdated because new practices develop over time. In addition, the proposed approach reduces structuring opportunities (ie arrangements drafted in a way that do not meet the definition).

However, we note that the scope of the ED is limited to disclosure requirements. The ED does not address the wider (and maybe more important) issue of classification of liabilities in the statement of financial position. We believe that, in this (or in a separate) project, the IASB should:

- provide further guidance on whether and when an entity should derecognise trade payables that become part of these arrangements; and
- clarify when such a liability should be classified as a financial liability (and thus included in the net financial position) or as a non-financial liability. In our view, this issue might be addressed in the Primary Financial Statement project.

Question 2 – Disclosure objective and disclosure requirements

Paragraph 44F of the [Draft] Amendments to IAS 7 would require an entity to disclose information in the notes about supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on an entity's liabilities and cash flows.

To meet that objective, paragraph 44H of the [Draft] Amendments to IAS 7 proposes to require an entity to disclose:

(a) the terms and conditions of each arrangement;

(b) for each arrangement, as at the beginning and end of the reporting period:

(i) the carrying amount of financial liabilities recognised in the entity's statement of financial position that are part of the arrangement and the line item(s) in which those financial liabilities are presented;

(ii) the carrying amount of financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers; and

(iii) the range of payment due dates of financial liabilities disclosed under (i); and

(c) as at the beginning and end of the reporting period, the range of payment due dates of trade payables that are not part of a supplier finance arrangement.

Paragraph 44I would permit an entity to aggregate this information for different arrangements only when the terms and conditions of the arrangements are similar.

Paragraphs BC12–BC15 and BC17–BC20 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you agree with only parts of the proposal, please specify what you agree and disagree with. If you disagree with the proposal (or parts of it), please explain what you suggest instead and why.

We support the proposed disclosure objective to enable users of financial statements to assess the effects that supplier finance arrangements have on an entity's liabilities and cash flows.

Paragraph 44H requires to disclose information for each supplier finance arrangement and paragraph 44I permits to aggregate the information provided only when the terms and conditions of those arrangements are similar.
We think that this approach may be too onerous for preparers and may result in providing users with excessive details. We also question whether providing this information is useful when trade payables, that are part of these arrangements, are not derecognised. We suggest the IASB to consider a more principle-based approach, for example:

- an entity should be required to provide the information set out in paragraph 44H only when trade payables are derecognised and a financial liability is recognised, or
- requiring entities to disclose aggregated information (when terms and conditions are similar) and require disaggregation only when it is necessary in order to provide relevant information.

Question 3 – Examples added to disclosure requirements

Paragraph 44B of the [Draft] Amendments to IAS 7 and paragraphs B11F and IG18 of the [Draft] Amendments to IFRS 7 propose to add supplier finance arrangements as an example within the requirements to disclose information about changes in liabilities arising from financing activities and about an entity's exposure to liquidity risk, respectively.

Paragraphs BC16 and BC21–BC22 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why.

We agree with the IASB's approach to include examples in the ED.